LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 818** HLS 09RS 1186

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date:	May 26, 2009 9:04 AM	**Author:**	ELLINGTON
Dept./Agy.:	Revenue		
Subject:	State sales tax exclusion for consumables	**Analyst:**	Deborah Vivien

TAX/SALES-USE, STATE OR DECREASE GF RV See Note

Phases-in an exclusion from state sales and use taxes for certain tangible property related to the manufacturing process

Current law subjects purchases of tangible personal property consumed in the manufacturing process for manufacturing machinery and equipment to state sales tax, whether the property is consumed in operation or repair.
Proposed law provides a phased-in exclusion from state sales tax to tangible personal property consumed in the manufacturing process for manufacturing machinery and equipment, including fuses, belts, felts, wires, conveyor belts, lubricants and motor oils, spare and replacement parts such as valves, pumps, motors and other manufacturing machinery and equipment to state sales tax, whether the property is consumed in operation or repair. This exclusion also includes the cost price of repair and maintenance of manufacturing machinery and equipment. This exclusion would only be available to manufacturers assigned to a NAICS Sector 3211 through 3222, which is predominately wood and paper product manufacturing. Sales tax on these items will be reduced by 25% in FY 09/10, 50% in FY 10/11, 75% in FY 11/12 and 100% in FY 12/13.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

While any individual tax credit like the one proposed by this bill adds additional administrative costs to the Department of Revenue, passage of some number of additional exclusion will add material additional administrative costs to the Department of Revenue.

REVENUE EXPLANATION

Without some specific data related to consumable tangible personal property, it is not possible to estimate the fiscal impact of this bill. The bill provides a sales tax exclusion on every item consumed in the manufacturing process and the cost of repairs and maintenance of manufacturing machinery and equipment. Given the size of the sectors involved (Louisiana Workforce Commission reports there are 131 employers in NAICS sectors 3211 through 3222 with 5,725 total employees) and the highly capital intensive nature of the wood and paper industries, state revenue losses are likely to be substantial.

For illustration purposes, assume average eligible expenditures across the industry of $2,000,000 per year on consumable items including replacement parts and maintenance contracts. Total sales would be $262,000,000 (131 manufacturers * $2,000,000). The state sales tax exclusion is phased in equally over four years with FY 09/10 at 25% which implies foregone state sales tax revenue of $2,620,000. In FY 10/11 at 50%, state general fund is expected to decline by $5,240,000; in FY 11/12 at 75%, state general fund revenue is expected to decline by $7,860,000 and in FY 13/14 and beyond at 100%, state general fund revenue is expected to decline by $10,480,000. Average eligible expenditures of only $95,500 would be sufficient to generate $500,000 per year of state revenue loss.

Even without industry-specific data, it is reasonable to conclude that the impact to state general fund of this exclusion at 100% is likely to be significant, possibly several millions of dollars each fiscal year.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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